ENERGY SAVINGS PERFORMANCE CONTRACT (ESPC) WORKSHOP
26-29 Jun 01
Orlando FL

Workshop Participants: Base and MAJCOM Energy Managers, Contracting Officers, CE Financial Managers, JA, FM

Purpose: Provide overview of ESPC concept; its purpose, the procedures and processes established for ESPCs.

Currently there are 52 ESPCs at Air Force locations and another 60 projects pending. If all task orders were awarded the total cost to the government over the life of the contracts would be approximately $1 billion.

Statutory Authority:
42 USC 8287
- Federal Agencies may enter into ESPCs for up to 25 years.
- Aggregate annual payments may not exceed amount agency would have paid for utilities without contract, and contractor must provide guarantee of savings.
- Contractor may be responsible for maintenance and repair as determined by the Air Force. The premise is unless negotiated otherwise, the ESPC contractor owns the equipment/systems until the ESPC is paid off.

10 CFR 436.36
- Payment must be made only from funds available to the agency for payment of energy and energy-related operation and maintenance that would have been incurred without the contract.

ESPC guidelines require a 10-year simple payback of Capital Investment cost with up to 25-year for payoff. The Air Force will own the equipment/system at the conclusion of the contract.

Typically Energy Conservation Projects (ECPs) are 'bundled' into an Energy Conservation Measure (ECM) as one task order. This enables the base to get more work done (i.e. facility/infrastructure repairs and upgrades) and the larger project is more enticing to the contractor and the 3rd party financier. Payments to the ESCO will not start until the ECM is complete. The EEIC 480X1 should be used to record ESPC costs so they can be separated from the actual utility cost.

Energy reconciliation is conducted in the 11th month of a contract year and if guaranteed savings have not been achieved an adjustment is made to the ESCO payment. This could be a refund or a reduction to the next invoice(s).

A number of discussions were held on the need for the ECM to be funded from appropriations other than O&M, if activities covered by those appropriations benefit from the measure (infrastructure upgrades). Specifically, we were looking at customers such as Housing, Medical, and Working Capital Funds. Other small customers will pay through increased utility sales rates.

Discussions were held concerning changes required to the original ESCO contract (Task Order) due to government actions, i.e. building demolitions, base closures, new missions, etc. The discussions related to government liability. The basic rule is the government is liable to the ESCO for that portion of the contract affected by the government's decision. This could be a substantial cost in the case of a base closure or significant building demolition program. While the base/command may be able to negotiate a new pay-out plan for those initiatives affected by demolition of facilities, which can be handled within base/command resources, it is not likely the same will be true in a base closure/major mission change situation. In the case of base closure/major mission changes it is recommended they be funded with base closure or new mission funds as applicable. The key point is the requirement must be identified up front and resource needs addressed.

The issue of "buy downs" was addressed. This involves the use of additional savings, due to the ESPC initiative, being used to pay down the "balance" of our ESCO payment. It was recommended this not be done because the ESCO's financiers may well require a new financing agreement. Long term financier's loan money for long term needs and they normally do not want to see early payoffs. Early payoff penalties normally range from 3-5% of the financed amount. It was suggested in lieu of making early payoffs, if funding is available at the base that it be used to accomplish other infrastructure projects.

One area that bases were cautioned on is that utilities are not fully funded. Savings greater than the guaranteed savings in any year may not be available to the base to use and they may be absorbed into the overall utility shortfall. Financial managers know that energy savings may not equal dollar savings and since utilities are not fully funded by the commands any savings will go toward unfunded utility requirements.

Bases were cautioned against using increased utility rates as the basis for computing estimated savings, which in effect allows them to get infrastructure work done under the ECM. The purpose of ESPC initiatives is to reduce utility consumption, not infrastructure upgrade. Infrastructure upgrade is an opportunity provided due to ESPC but should never be looked at as the primary goal.

These are the EEICs to be used for ESPC obligations.

COMMODITY	PURCHASED UTILITIES	ESPC	DSM
WATER	48010	48011	48012
ELECTRICITY	48020	48021	48022
GAS	48030	48031	48032
SEWAGE	48040	48041	48042
STEAM	48050	48051	48052

Conclusion: The workshop was very beneficial. It answered many questions and addressed many concerns. We need to include a briefing or a training class on ESPCs in our next worldwide conference. The financial manager needs to understand their role and responsibilities in regards to ESPCs and ensure they are involved in the process from the beginning.